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Please note that this is a draft report that has been prepared by staff based on their interpretations of the Task Force findings and recommendations. None of the language included in this draft has been approved by Task Force members, and nothing in the report should be considered final until approved by the full Task Force and incorporated into the final report.

## Section 2

### Promoting School Funding that is Adequate and Equitable for Wisconsin's Children and Taxpayers

**Governor's Charge:** *Review how the state funds education through a combination of state and local taxes, and make recommendations regarding what proportion of these two taxes is fair and reasonable to fund public education. In making recommendations, consider the constitutional requirement for equal opportunity, local control in decision making, and the effect of financing systems on property and other tax rates.*

*Study and make recommendations regarding the cost of providing a great education to every child in Wisconsin and determine the level at which Wisconsin citizens are prepared to fund that education.*

**Goals:** Implement a balanced, sustainable, and stable system of school finance that provides every public school district with the resources needed to offer all students the opportunity for a sound, basic education. Significantly reduce school districts' reliance on the property tax as a source of funding. Retain local control by school boards to allocate resources within school districts.

#### I. State and Local Taxes as a Part of School Funding

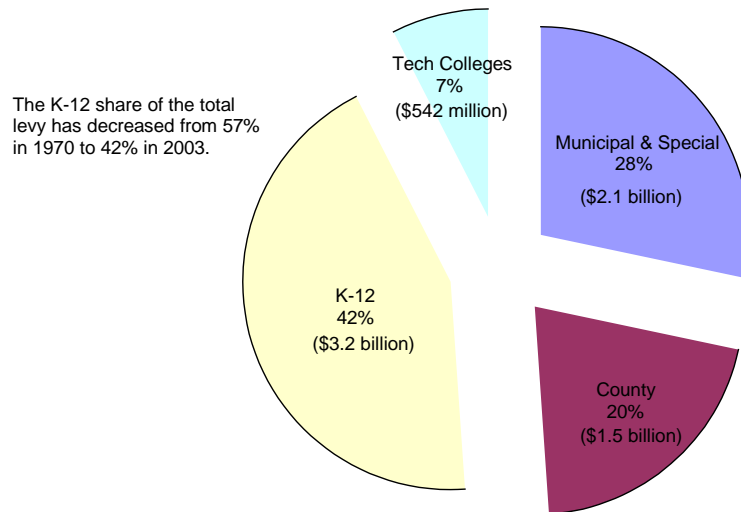
**Problem:** Wisconsin's higher than average property taxes have understandably led to consternation among homeowners over their rising tax bills. Since the property tax in Wisconsin, as in most other states, is a significant source of funding for public schools, property taxes can create a dangerous tension between the shared goals of high quality public schools and taxpayers' ability to pay. Taxpayer support for efforts to improve education may be undermined by the calculus of their direct effect on their own property tax bills. This tension has led to proposals such as the property tax "freeze" or TABOR that would not only have devastating impacts on public schools, but also fail to actually reduce property taxes.

The property tax is the single largest source of revenue for funding state and local government in Wisconsin. In FY03, nearly \$6.9 billion in property taxes was collected in Wisconsin with 99% of those revenues going to fund local government. The biggest recipient of property taxes is the

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public school system. In FY03, nearly 42% of all property tax revenue was used to fund public education. Despite past efforts that succeeded in reducing school district reliance on property taxes from 55% of the state/local school funding mix in 1986-87 to one-third on 2002-03, the level of property taxes remains a sort point among Wisconsin residents.

**In 2003, Public School Property Taxes Comprised 42% of the Total Gross Property Tax Levy**



In Wisconsin, the conviction that property taxes are high is affirmed by national rankings. In 2000, Wisconsin ranked 11<sup>th</sup> among the states in terms of the amount of property tax paid per \$1000 of personal income. In contrast, Wisconsin ranked 31<sup>st</sup> out of 46 states that levy a sales tax in terms of the amount of sales tax paid per \$1000 of income.

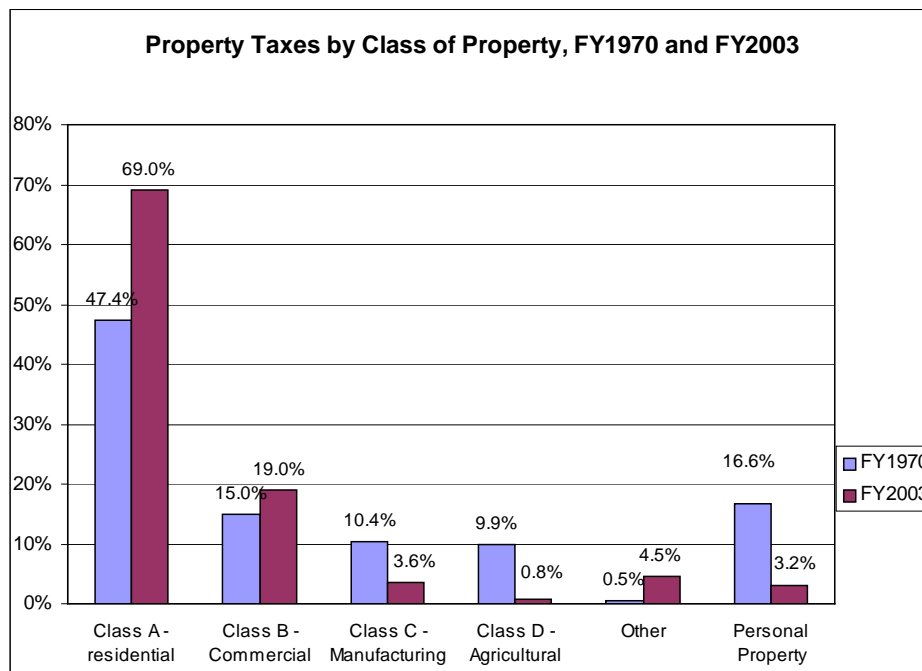
Historically, property taxes have been considered a fair and simple means of paying for local public services. In the 19<sup>th</sup> Century, when the United States was still firmly rooted in the agrarian economy, property was a primary source of income for many families, and an accurate measure of ability to pay for public services, including education. In an agrarian society, the relative wealth of citizens is visible – land and buildings cannot be hidden – so it was relatively easy to ensure that individual taxpayers paid their fair share of the cost of public services. Land was fixed and finite and could be easily measured and valued by local and state officials.

Over time, however, the link between property wealth and overall wealth has diminished. As society became urbanized, income incrementally replaced property as a measure of ability to pay for public services. Today, citizens' ability to pay for public services is better reflected by their wages, salaries, and financial assets (such as stocks and bonds) than by the value of their home. This evolution in the national economy has helped fuel a popular perception that the property tax is no longer fair because the amount one pays is not really based on income or ability to pay.

Further exacerbating the perception that property taxes are not fair is increasing share of the property tax borne by residential property owners. In 1970, residential property owners paid for less than 50% of the property tax. By 2003, that percentage has climbed to nearly 70%. Reasons for this dramatic increase include the following:

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- Residential property values have grown faster than the values of commercial, industrial, agricultural, and other classes of property;
- Exemptions of business property, including manufacturing and machinery equipment, waste treatment, pollution control and recycling facilities, and computers, have reduced businesses' share of the property tax; and
- Use value assessment of farmland has reduced the share of property taxes paid by owners of agricultural land and other open space.

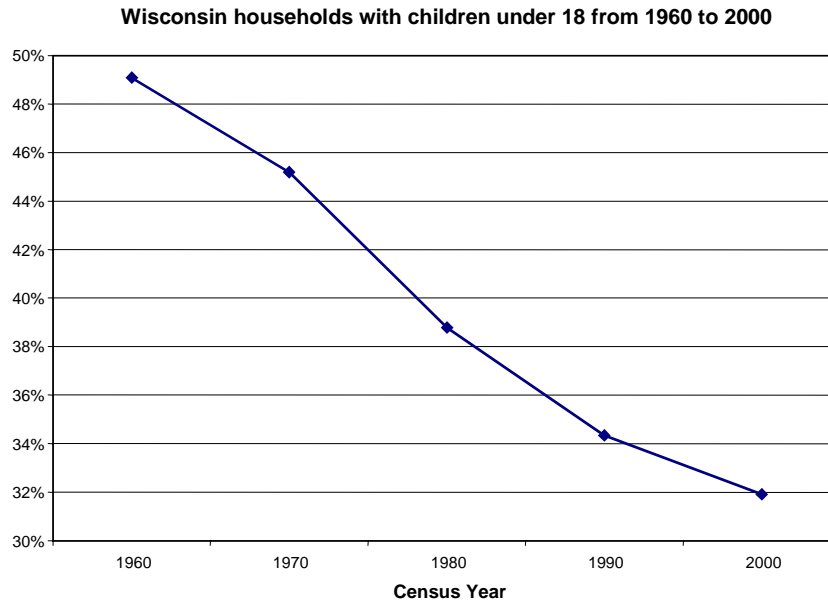


Perhaps the clearest example of how this disconnect between property taxes and ability to pay is affecting real people in Wisconsin is how property taxes affect senior citizens on fixed incomes. A senior citizen living only on Social Security and their life's savings see little growth in income over time. When cost of living is taken into account, many retirees actually see inflation-adjusted declines in their incomes over time. Unfortunately, property taxes do not adjust to reflect this reality. If a senior's home value rises and/or the community's property tax levy continues to grow, the senior's property tax bill is likely to grow. Under such circumstances, senior citizens can be forced to sell their homes in order to simply put food on the table.

At the same time Wisconsin homeowners of all ages are seeing their property taxes grow, fewer and fewer taxpayers have children in school. In 1960, nearly 50% of households had children under age 18. In 2000, only about one-third of households had school-age children. This problem will intensify in the coming years due to the fact that Wisconsin's population is quickly aging. As the "baby boomer" generation enters retirement and their children outgrow the K-12 system, thousands of additional households may no longer have a direct interest in local public schools.

In addition, ours is an increasingly mobile society where individuals frequently move among school districts, and may have reduced ties to their communities. New public and private school options that have been made available to Wisconsin parents, including open enrollment, virtual schools, charter schools, and voucher schools, may further weaken the bond that homeowners have with their local school districts. Declining personal investment and a perceived lack of

direct value in local schools further escalates the conflict between the need to provide high quality schools and the property taxpayers' willingness to pay.



Another key reason for public dislike of the property tax is the manner in which it is paid. Unlike income taxes that are paid throughout the year by withholding, or sales tax that is collected with each purchase, property taxes are generally paid on only one or two lump sums.

**Goals:** Reduce the reliance on the property tax, alleviate the tension between property taxpayers and school costs, and identify stable alternative revenue sources to fund K-12 education in Wisconsin.

**Recommendation:**

29. *The Task Force recommends a 20% reduction in total local property taxes, equal to a 43% reduction in school property taxes, through a dollar-for-dollar sales tax-for-property tax replacement to help create a more balanced system of school finance. The Task Force recommends the creation of a separate segregated fund for collection and distribution of the additional sales tax revenue, allowing for future growth above the segregated fund's base level to remain in fund for investment in education.*

*In conjunction with the use of additional sales tax revenue in place of property tax revenue, the Task Force recommends that additional relief be provided to lower income individuals who may otherwise bear a disproportionate burden of such a transition. For example, additional investments in the Homestead Credit or the establishment of a Sales Tax Credit are two mechanisms that could deliver tax relief to lower-income individuals.*

*Finally, the Task Force recommends exploring incentive mechanisms to ensure that other units of government - which also rely on local property tax dollars - do not use the reduction in school property taxes as an opportunity to increase their own levies and reduce or eliminate the property tax relief delivered under this proposal.*

Justification: The Task Force finds that a reduction in school property taxes followed by the identification of an alternative and relatively stable source of revenue for schools is a desirable outcome that will benefit schools and taxpayers. The Task Force heard testimony about the conflict the property tax has created between schools and homeowners (particularly those without school age children) and individuals living on low or fixed incomes. The Task Force however, rejects proposals such as “freezing” property taxes or imposing unworkable constitutional limits on school district revenues. Neither option actually reduces property taxes or protects Wisconsin’s public education system.

A sound tax system, according to many tax policy experts, is a balanced tax system. The Task Force believes that the balance of Wisconsin’s system of taxation should be reexamined. The national rankings confirm this conclusion. While Wisconsin relies more heavily on the property tax than most states (11<sup>th</sup> out of 50 states), the state ranked 31<sup>st</sup> (out of the 46 states that have a sales tax) in sales tax collected per \$1,000 of personal income. In addition, the analysis below depicts how Wisconsin compares to other states in the upper Midwest, finding that Wisconsin has the lowest overall sales tax rate.

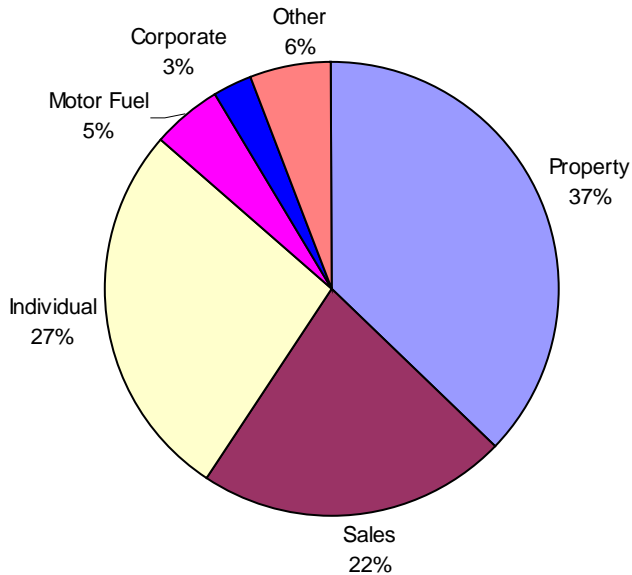
STATE TAX RATES, MAXIMUM LOCAL RATES, AND TOTAL STATE-  
LOCAL RATE OF NEIGHBORING STATES

	<b>State Rate</b>	<b>Maximum Local Rate <sup>1</sup></b>	<b>Maximum State/ Local Rate</b>
Illinois	6.25	2.50	8.75
Iowa	5.00	2.00	7.00
Michigan	6.00	---	6.00
Minnesota	6.50	1.00	7.50
Wisconsin	5.00	0.60	5.60

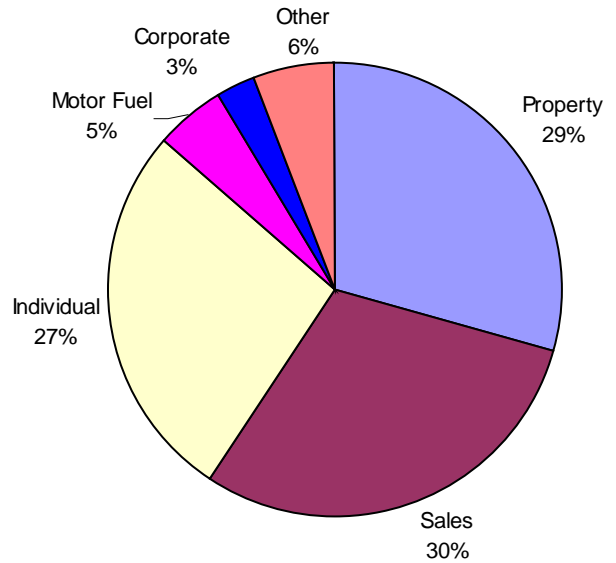
Shifting from the property tax to the sales tax for school funding will create a more balanced system of educational finance. A simulation of the impact of this recommendation validates this conclusion. Currently, the property tax constitutes 37% of total state and local revenues. After implementation of this recommendation, the property tax’s share would drop to less than 30% - approximately equal to the sales tax’s share of the total. In fact, as a result of these changes, the three largest state and local tax types – property, sales and individual income – will be roughly equal. This change is indicative of the Task Force’s intention of creating a more balanced system of taxation in Wisconsin.

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**CHART 1:  
STATE & LOCAL TAX REVENUES BY TAX TYPE,  
FY2003**



**CHART 2:  
STATE & LOCAL TAX REVENUES BY TAX TYPE,  
PROPOSED**



A more balanced mix of taxes promotes equity in that the burden would be more widely distributed among taxpayers. In contrast, under the current system, homeowners pay a disproportionate share of total taxes, especially since residential property is taxed so heavily. In addition, to the extent that Wisconsin's mix of taxes becomes more similar to those of other states, the state may become more attractive to businesses.

The effect of this proposal on property tax bills in Wisconsin would be very significant. School property taxes would be reduced by 43% statewide with a number of areas seeing even larger reductions. The owner of the median value home in Wisconsin would benefit from at least a \$500 reduction in their property tax bill (based on the estimated median home value of \$133,800 with 2003 estimated property taxes of \$2,597). The Task Force did not take a position on how to distribute the tax relief, but rather examined several options of delivery, including through the state's equalization aid formula. The following table details how much school levies would have been cut in 2003-04 in Wisconsin's 35 largest school districts, if this proposal had become law and the funds were distributed through the equalization aid formula.

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**School Levy Reduction for the Most Populous School Districts  
(Based on a \$1.44 Billion Increase in School Aids)**

<b>School District</b>	<b>Percent Decrease in School Levy</b>
Milwaukee	52.3%
Madison Metropolitan	36.6%
Racine	62.3%
Kenosha	48.5%
Green Bay Area	47.2%
Appleton Area	51.9%
Waukesha	47.6%
Eau Claire Area	43.4%
Janesville	52.1%
Oshkosh Area	57.7%
Sheboygan Area	40.5%
Wausau	43.2%
West Allis	46.4%
Stevens Point Area	53.8%
La Crosse	45.0%
Fond du Lac	54.4%
Elmbrook (Brookfield)	22.3%
Beloit	42.7%
West Bend	59.7%
Neenah	48.9%
Wauwatosa	55.8%
Wisconsin Rapids	52.5%
Manitowoc	57.6%
Middleton-Cross Plains	39.3%
D C Everest Area (Rothschild)	49.7%
Sun Prairie Area	42.1%
Superior	49.7%
Oak Creek-Franklin	49.6%
Mukwonago	49.1%
Howard-Suamico	46.1%
Muskego-Norway	37.4%
New Berlin	34.8%
Chippewa Falls Area	49.5%
Hudson	45.0%
Verona Area	36.2%

There are other powerful arguments in favor of increasing Wisconsin's reliance on the sales tax. Over time, sales taxes grow with the economy and are linked in general to an individual's ability to pay. In contrast, the link between ability to pay and the property tax has weakened and will likely continue to weaken as the state's population ages.

Closing sales tax loopholes, particularly those that relate to discretionary services, would also promote greater revenue stability and taxpayer equity. As the national economy has evolved,

the sales tax base has become a smaller portion of the overall economy. As the economy has shifted from being a “goods producing economy” to more of a “service-based economy”, the sales tax has not kept up. Under current law, virtually all services are exempt. As a result, less and less of the total amount of consumption in Wisconsin is now taxable. This means that sales tax revenue has not grown as fast as the overall economy, leading to less revenue stability and an increased tax burden on individuals for whom most of their consumption is related to the purchase of taxable goods. These individuals tend to be lower income, which means that the sales tax has become more regressive over time. A broader sales tax base would even out the burden as well as promote long-term growth in sales tax revenue.

The Task Force firmly believes that any change in school finance should not lead to a more regressive system of taxation in Wisconsin. While all taxpayers must share in the cost of funding our public schools, low and moderate income families should not be forced to bear a disproportionate share of the burden. To ensure that this does not occur, the Task Force recommends the creation of a targeted income tax credit to help offset the impact of this proposal on low- and moderate-income families. This credit could take the form of an expanded Homestead Credit or a new credit that was specifically related to the consumption of taxable goods and services. Regardless of its form, the goal of this credit would be to help prevent a rise in the tax burden for low and moderate-income Wisconsin residents.

The Task Force recommends that in order prevent a more regressive tax system in Wisconsin, existing exemptions for necessities, such as food, prescription drugs, and health care expenditures, should be maintained. Unlike some of the loopholes in the sales tax that have been created over the years by powerful special interests, these essential services cannot be avoided and, if taxed, would make Wisconsin’s tax system more regressive.

Finally, the Task Force recognized that, in order for the property tax cut to be meaningful, local units of government must not take advantage of this significant property tax reduction by raising their own levies. Keeping existing revenue limits in place will help to ensure that school districts will not be able to increase spending beyond what those limits allow, unless they get the approval of their voters in a referendum. For other units of local government, the Task Force suggests that incentive mechanisms be explored to help ensure that property taxpayers see the full benefit of this plan. The Task Force does not recommend harmful tax “freezes” or other arbitrary constraints that could harm public schools and other essential public services like police and fire.

Estimated Fiscal Effect: To reduce the state’s overall property tax burden by 20% and establish a more balanced system of school finance, \$1.44 billion in sales tax revenue would have to be generated. The Task Force recommends that a combination of increasing the state sales tax by one penny (from 5% to 6%) and expanding the sales tax base be implemented to generate this revenue. The Task Force recommends that current sales tax exemptions be retained on essential personal goods such as food, prescription drugs, and medical supplies.

## II. School Costs and Revenues

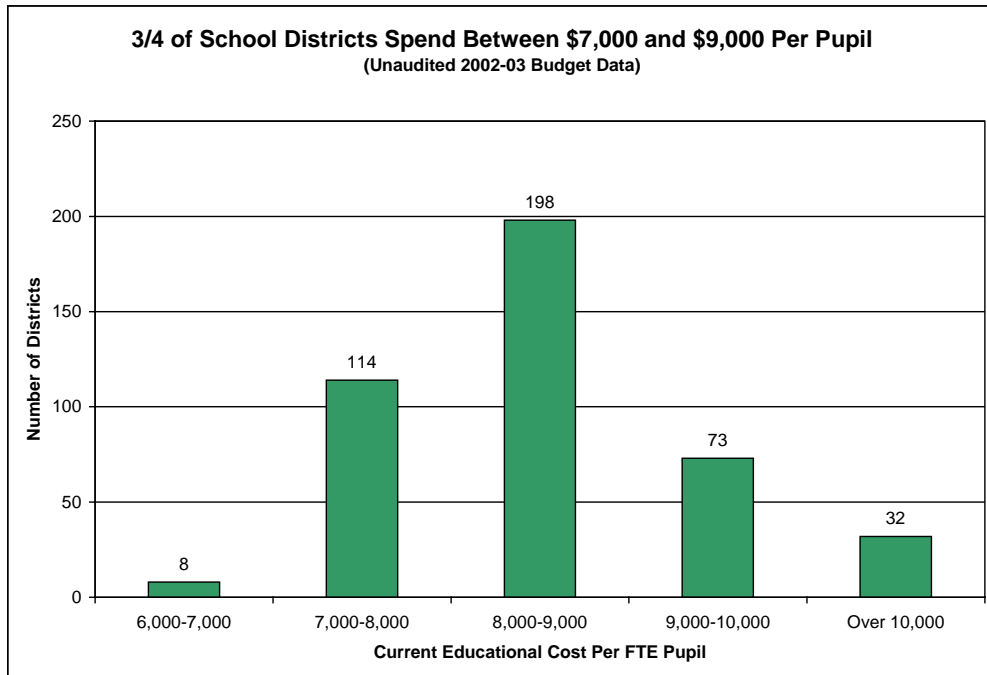
**Problem:** Article X of the Wisconsin Constitution establishes the state public school system and requires that the school districts “shall be as nearly uniform as practicable”. The state’s current equalization aid formula seeks to meet this constitutional requirement by focusing on achieving equal property tax effort, as measured by the property tax rate, for equal spending among school



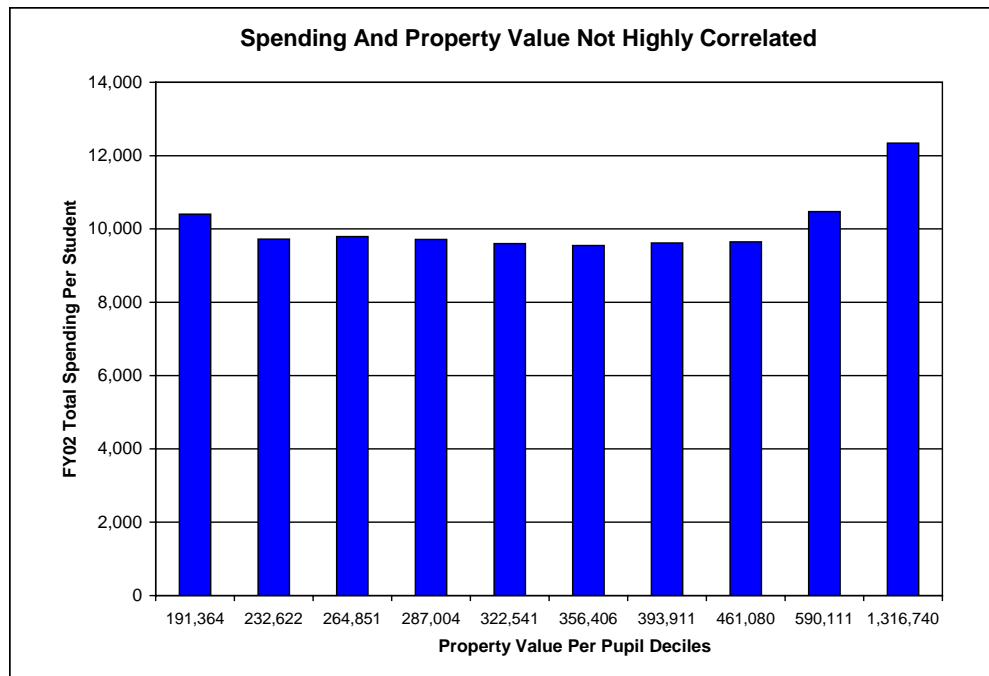
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districts statewide. However, some have argued that while the current system may equalize tax effort, it does not sufficiently equalize spending disparities among districts.

While school spending per pupil ranged from \$6,066 in North Cape to \$16,109 in Lac du Flambeau #1 in 2003-04, 75% of Wisconsin school districts spend between \$7,000 and \$9,000 per pupil.



While disparities may be significant at the margins, the state's current equalization aid formula receives good reviews for its success at achieving equity. According to Dr. Allan Odden, Professor of Education at the University of Wisconsin-Madison and a national expert on school finance, Wisconsin has met most equity benchmarks since the mid 1990's. The Wisconsin State Supreme Court, in two decisions over the past 15 years (*Vincent v. Voight* in 2000 and *Kukor v. Grover* in 1989), held that Wisconsin's current system of school aid distribution through the equalization aid formula is constitutional. According to the majority opinion in *Vincent*, "the present school finance system more effectively equalizes the tax base among districts than the system did at the time *Kukor* was decided...." In addition, except for the very highest value districts, per pupil spending is fairly uniform across districts even as property values increase. This is further evidence that the formula is reasonably successful in providing equity.



The formula's relative success in achieving equity does not, however, fully resolve the issue of whether funding in each school district is adequate to ensure that all children, including economically disadvantaged students, students with special needs children, and students with limited English skills, receive a sound, basic education. The Wisconsin State Supreme Court established the standard for a sound, basic education as follows:

*An equal opportunity for a sound basic education is one that will equip students for their roles as citizens and enable them to succeed economically and personally. The legislature has articulated a standard for equal opportunity for a sound basic education in Wis. Stat. §§ 118.30(lg)(a) and 121.02(L) (1997-98) as the opportunity for students to be proficient in mathematics, science, reading and writing, geography, and history, and to receive instruction in the arts and music, vocational training, social sciences, health, physical education and foreign language, in accordance with their age and aptitude. An equal opportunity for a sound basic education acknowledges that students and districts are not fungible and takes into account districts with disproportionate numbers of disabled students, economically disadvantaged students, and students with limited English language skills. So long as the legislature is providing sufficient resources so that school districts offer students the equal opportunity for a sound basic education as required by the constitution, the state school finance system will pass constitutional muster. (Vincent v. Voight, pg. 53)*

The Task Force reviewed possible alternative school funding mechanisms, including a foundation plan. The major distinction between Wisconsin's current equalization aid formula and a basic foundation plan is that equalization maintains local control in establishing spending, while a foundation plan establishes a minimum, and sometimes a maximum, spending level that all school districts are required to meet. Foundation plans, in general, are based on the premise that the state's role is to guarantee or require a minimum level of funding for each student. One attractive feature of foundation plans is that spending per pupil could be set at a level determined

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to be necessary to provide the opportunity for a sound, basic education. However, the Task Force weighed these goals against the benefits of the current system: namely, the importance of local control in determining the amount needed to educate their students, and the relative success of the current formula in providing equity.

The Task Force believes that it is possible to maintain local control while making it easier for districts, particularly Wisconsin's lowest spending districts, to provide adequate resources for a sound, basic education. Revenue caps were enacted over ten years ago and have been adjusted annually by a fixed, and arguably arbitrarily set, dollar amount. As a result, a district's 2003-04 spending decisions are based, in part, on how much that same district spent at the time revenue caps were enacted over ten years ago. While this is true for all districts, Wisconsin's lowest spending district are governed by the "low revenue ceiling", a local option that allows school districts to increase their per pupil revenues up to a statutorily established amount without having to go to referenda. In 2003-04, districts could raise revenues up to \$7,400 per pupil and will be able to go to \$7,800 in 2004-05. (The statewide average per pupil revenue limit was \$8100 in 2003-04.)

While the low revenue ceiling allows some districts to exceed the inflationary per pupil increases allowed to all districts under revenue caps, the low revenue ceiling is generally set in a haphazard fashion and is fixed in state law. If the ceiling is not increased every year, it runs the risk of not providing any meaningful flexibility to low spending school districts. More importantly, the ceiling is not based on any rational analysis of what is a sound, basic education, and how much districts should spend to provide it. Local school districts that spent well below the statewide average more than a decade ago may now have different opinions about what level of spending is appropriate, or may now face very different circumstances.

Finally, even though the goal of revenue caps is to limit property tax increases, there is one provision of the law that actually encourages districts to increase taxes to the maximum allowed. Current law allows districts that do not utilize 100% of their revenue limit authority to carry over only 75% of their revenue limit authority into the following year. The Task Force heard testimony that this provision unfairly penalizes school districts for spending less than the maximum amount under law, and does not encourage school districts to keep property taxes as low as possible.

**Goals:** Ensure that Wisconsin children have an equal opportunity for a sound, basic education. In promoting this goal, ensure that Wisconsin's school financing system both equitably and adequately funds education. Implement a state-local finance system that provides every public school district with the resources needed to offer all students the opportunity for a sound, basic education. Retain local control by school boards to allocate resources within school districts.

## **Recommendations:**

30. *The Task Force recommends a "cost out" study to define what constitutes a sound, basic education and how much it costs to provide it. The study should take into consideration differences in region, and the nature of students served, including districts with disproportionate numbers of economically disadvantaged students, special needs students, and students with limited English skills.*

Justification: The Task Force recognizes that answering the question of what it costs to provide each child in Wisconsin with the opportunity for a sound, basic education requires

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expertise and broad citizen participation beyond that of the 29 Task Force members. Cost out studies, also commonly referred to as adequacy studies, are professional academic analyses conducted to estimate an adequate level of a state's educational spending per child. Such studies are commonly performed for a state Legislature or Governor, or as the result of a lawsuit challenging the equity of a state's school finance system. The Task Force recommends that this kind of professional study be performed for Wisconsin. It should include analysis by the academic community, but should also be an opportunity to reach consensus among parents, teachers, administrators, and the business community about what constitutes an adequate education in Wisconsin.

Estimated Fiscal Effect: It is estimated that such a study could cost in the range of \$75,000-\$100,000. To the extent that state funds are limited, other sources of funding, such as private gift or foundation grants, could be sought for the study.

31. *The Task Force recommends increasing the low revenue ceiling to a level that equals the minimum needed to provide students with the opportunity for a sound, basic education. This may or may not exceed the amount currently set in statute. Strong weight should be given to the results of the cost out study when determining the level of the ceiling.*

Justification: The Task Force recognizes that revenue caps may keep per pupil revenues below what some districts, particularly the lowest spending districts, consider to be adequate to fund a sound, basic education. The results of the cost out study (Recommendation #30) could be used to set the low revenue ceiling at a more meaningful level that is closely aligned with districts' needs and responsibilities to provide a high quality education to its students. Establishing a rational basis for the state's low revenue ceiling will also promote even greater educational equity among the state's school districts.

The low revenue ceiling would, in effect, become a voluntary foundation funding level for Wisconsin's school districts. This change will incorporate the provisions that the Task Force members deemed to be positive about a foundation plan, while still maintaining the important features of local control and equalization. Local communities would retain the option of determining whether they need to spend up to the recommended adequacy amount.

Estimated Fiscal Effect: No direct state fiscal effect and an undetermined local effect. The local effect would depend on where the low revenue ceiling is set, and which districts would make use of it. This change will benefit state's lowest spending districts by providing additional revenue limit authority.

32. *The Task Force recommends renaming the "low revenue ceiling" the "adequacy standard".*

Justification: Renaming the "low revenue ceiling" to the "adequacy standard" would recognize its role as Wisconsin's voluntary foundation level, as well as its connection to what is needed to provide students the opportunity for a sound, basic education.

Estimated Fiscal Effect: None.

33. *The Task Force recommends increasing the 75% carryover provision of unused revenue limit authority to 100%.*

Justification: This current law provision creates a disincentive for districts to spend prudently. Instead, it creates an incentive for districts to tax to their revenue limit maximum, even if local school district needs for that school year do not require it, or the increase will adversely impact property taxpayers. Given the current property tax climate that already creates tension between homeowners and schools, Wisconsin school boards should have the ability to minimize their tax levies without forcing a reduction in future revenue limit authority.

For example, in a recent well-publicized action, the MPS Board of Directors chose to use all of its revenue limit authority for 2004-05, resulting in a school levy increase of over 15% for Milwaukee taxpayers. The levy increase was publicly attributed, in part, to the penalty associated with the 75% carryover provision. If the district would not have been penalized under this provision, MPS may have elected to pursue other means of balancing their budget, rather than relying on 100% of their taxing authority.

The MPS case demonstrates why most districts in the state use all of their revenue authority. In 2003-04, school districts used 99.7% of total statewide revenue limit authority.

This is a common sense change to a revenue limit measure that, while intended to hold down future property tax increases, actually only encourages property tax increases. Allowing 100% carry over would remove this disincentive and provide districts with greater flexibility when making local taxing and spending decisions. The Task Force believes this change will lead to greater taxpayer savings than current law.

Estimated Fiscal Effect: No state fiscal effect. While the proposal should reduce property taxes, the size of the reduction will depend on local school board decisions.

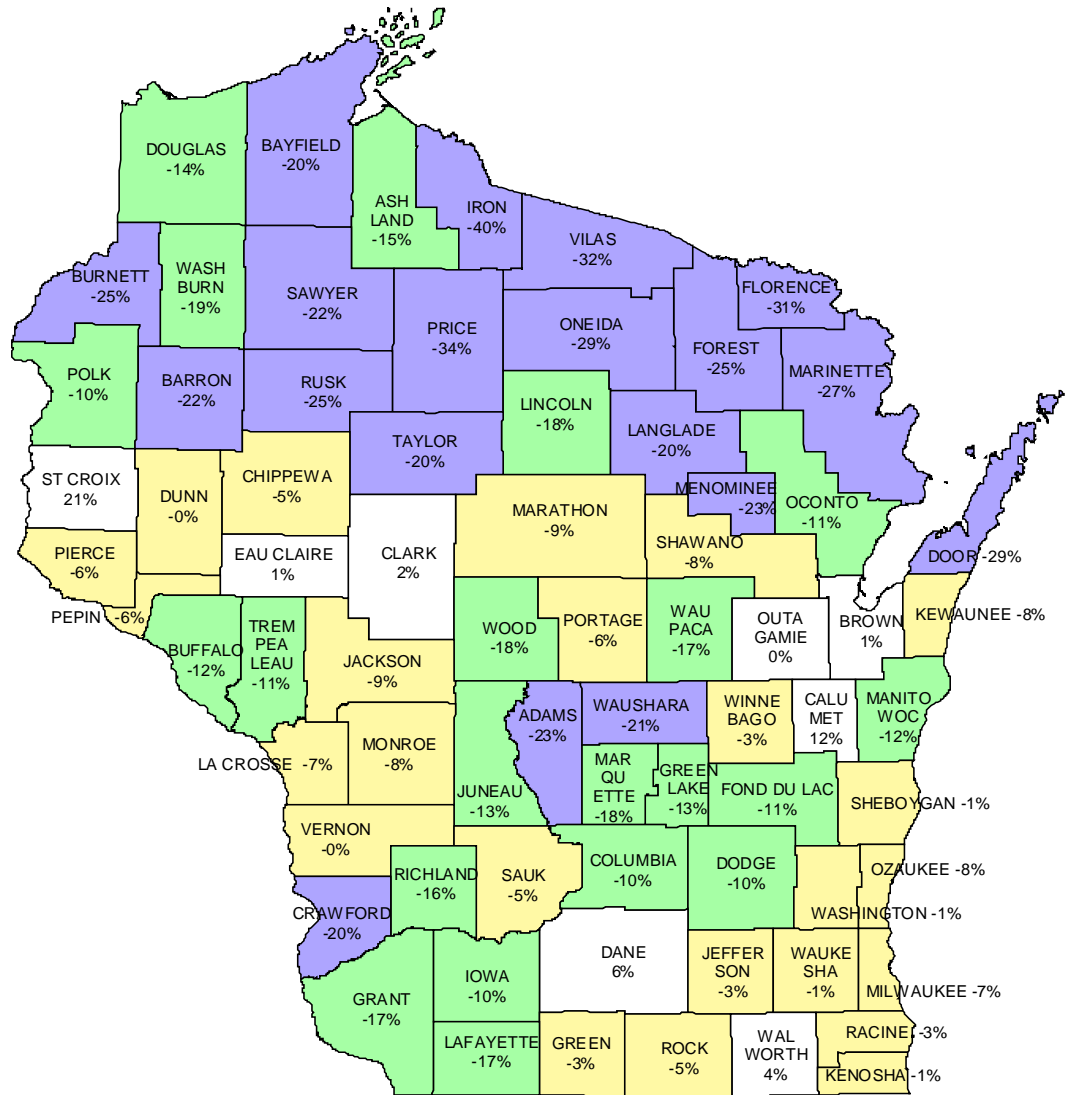
### **III. Addressing the Needs of Declining Enrollment Districts**

**Problem:** Based on a 3 year enrollment average (the calculation used for revenue caps), nearly 60% of the state's school districts are currently experiencing declines in student enrollment. Enrollment is a significant factor for both state aid and revenue limit purposes under the current financing system, and declining enrollment can have serious consequences for a district's fiscal viability. While declines in enrollment have the greatest adverse impact on Wisconsin's northernmost, smallest, and most property-poor districts, declining enrollment impacts districts regardless of size, property wealth, and level of expenditures per pupil.

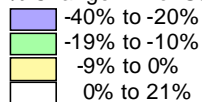
According to Wisconsin census projections (see map below), only eight counties will experience growth in the number of school-age children from 2000-2015. In fact, nineteen counties are expected to experience declines of 20%-40% in their school-age population in that time.

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## PERCENTAGE CHANGE IN NUMBERS OF SCHOOL CHILDREN BY COUNTY, 2000 - 2015



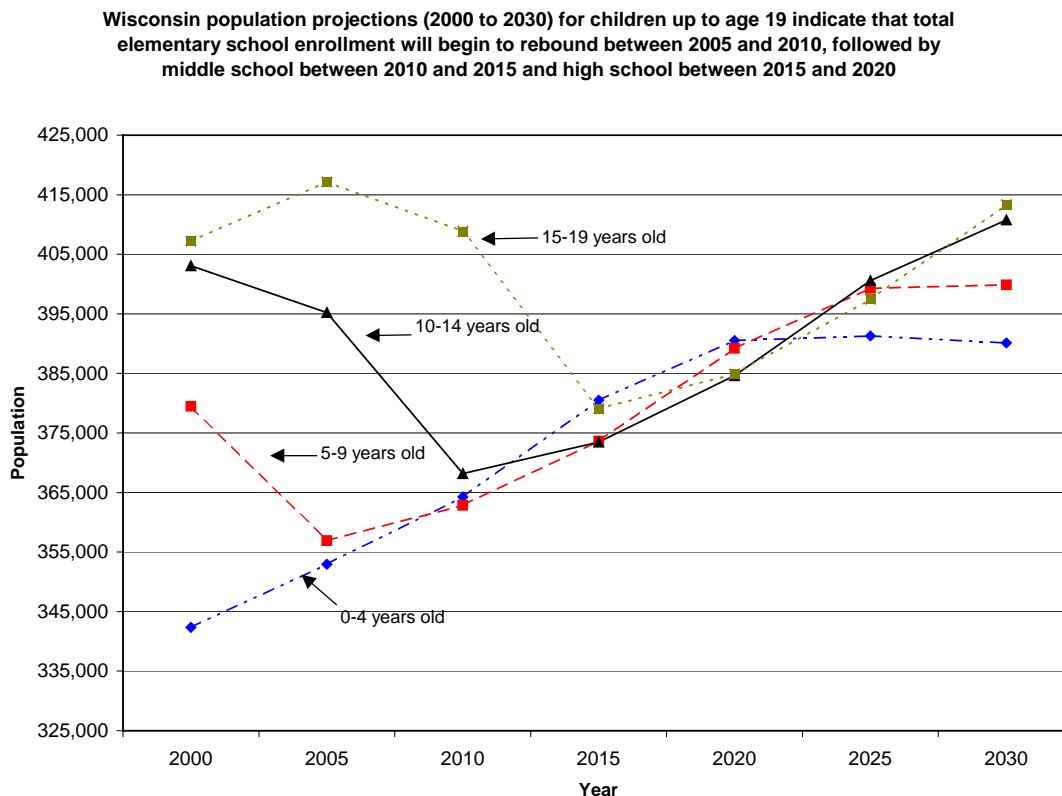
% Change in No. School Children



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Furthermore, declining enrollment is a problem that is not going to go away in the near future. According to census data, the overall number of school-age children in Wisconsin will continue to decline until approximately 2015, after which statewide enrollment is projected to grow once again. However, the declines are not equal across all age cohorts, as demonstrated in the chart below. These differences in growth by age group may have additional consequences for school districts.

### Projected Trends in Wisconsin School Aged Children by Age Cohort



Decreasing enrollment is significant for districts because enrollment is one of the factors used to determine both state aid and revenue limits. State law moderates the impact of sharp enrollment changes by using a 3 year-rolling average to calculate a district's enrollment for revenue limit purposes. As a result, if a district's enrollment drops in one year, the full effect is spread over 3 years.

Districts with persistent declines in enrollment must reduce their expenditures as they lose students. However, the 3-year-rolling average does not accurately reflect the marginal costs incurred when a district loses a student. For example, if a class of 25 students declines to 20 students, revenue limits suggest that the class should be able to reduce costs by 20%. However, the remaining 20 students still need a teacher and a classroom, and a 20% cut simply is not achievable in that classroom alone. Instead, any cost savings associated with losing these students is only at the margin, and reductions must be made elsewhere in a district's budget.

To address this issue, the current school finance system allows districts with declines in enrollment to keep 75% of their previous year's revenue limit authority, which provides some temporary assistance each year. However, this provision has not prevented school districts from having to make cuts to important programs. With fixed and, in some cases, growing costs such as transportation, insurance, and utilities, declining enrollment districts must often make difficult cuts to stay within their allowable revenue limits. In addition to losing revenue limit authority, districts also lose state aid associated with each pupil. Further, since the formula is based on equalizing property values per pupil and awards state aid in an equalized fashion, declines in enrollment also make a district's per pupil property value increase. The declining enrollment district may appear wealthier under the formula than it actually is, possibly resulting in additional decreases in state aid.

No matter how much assistance the state provides to school districts in an effort to minimize the reductions associated with declines in enrollment, school districts, particularly those with very significant enrollment declines, must prepare for the long-term consequences of this population trend. Long-term planning is needed, and must incorporate a review of facilities needs and opportunities to make greater use of distance learning.

**Goals:** Provide assistance to declining enrollment districts to help ensure a sound, basic education for all children in those districts. Such assistance should recognize the marginal costs of losing a student.

#### **Recommendations:**

*34. The Task Force finds that declining enrollment is a serious problem facing many school districts around the state. The Task Force recommends providing additional relief to declining enrollment school districts, in recognition of the marginal costs associated with losing a student. One example of such relief would be to change the 75% exemption from a non-recurring to a recurring exemption.*

Justification: While many districts have made difficult fiscal decisions under revenue limits, declining enrollment is one of the biggest challenges districts face when trying to maintain core educational programs and staff. Using the current 3-year-rolling average to moderate the impact of enrollment changes on revenue limits still does not accurately reflect the marginal costs associated with losing a student. The Task Force heard testimony that districts that lose significant enrollment are, under the current system, forced to make major cuts in their budgets, often in instructional programs. While the current 75% declining enrollment exemption under revenue limits provides some temporary assistance each year, it is arguably not enough.

Some relief to declining enrollment school districts could be provided by amending the 75% declining enrollment exemption from a one-time to a recurring exemption. This will provide declining enrollment districts increased capacity to maintain core functions.

Estimated Fiscal Effect: Maintaining the current 3 year-rolling average calculation for revenue limits, but changing the current 75% hold harmless non-recurring exemption to a recurring exemption, would allow districts to keep exemption funds permanently. The proposal could provide approximately \$25-30 million in additional annual revenue limit authority statewide once fully phased in.



35. *The Task Force recommends that all districts, including declining enrollment districts, establish a Master Plan for the future efficient delivery of a sound, basic education based on enrollment projections, requirements for facilities, etc. The plans should be developed with significant public participation and review, updated regularly, and submitted to the Department of Public Instruction for review.*

*While important for all districts, a formal planning process would require declining enrollment districts to address long-term issues facing them, including reduced state aid, facilities and management issues, issues relating to distance learning and other educational and achievement related matters necessary to ensure a sound, basic education.*

Justification: Many Wisconsin school districts and communities are going to be greatly affected by enrollment changes in the coming years. The Task Force believes that declining enrollment districts, especially those that will lose significant numbers of students over the next decade and have no real prospect for recovery, must acknowledge their population projections and begin planning for future needs. In order to prepare for these changes, it is important to move from away from simply reacting to crises as they arise toward a broad, proactive, community-wide discussion over how students should be educated in the future. Just as communities develop local zoning plans or have undertaken comprehensive planning under the state's "Smart Growth" law, encouraging school districts to plan how changes in enrollment and education can be shaped will provide for long term stability in the delivery of a sound, basic education.

While both the state and the local districts share a responsibility to ensure that all children have the opportunity for a sound, basic education, it is important that school districts begin long-term planning to prepare for the loss of substantial numbers of their student populations.

Estimated Fiscal Effect: This recommendation has a minimal state and local fiscal effect.

#### **IV. Addressing the Needs of Small, Rural School Districts**

**Problem:** Small, rural school districts are among the most expensive to operate due to a number of factors, including diseconomies of scale and higher transportation costs. In Wisconsin, 88 school districts (approximately 20%) have enrollments below 500 pupils.

Throughout the Task Force's work, attempts have been made to address the needs of small, rural school districts. Since these districts are more likely to be experiencing declines in enrollment, the Task Force's recommendation to provide additional revenue limit relief to declining enrollment districts will provide much-needed assistance. The Task Force's recommendations on special education, especially the high-need, low-incidence proposal, will help small, rural schools, where diseconomies of scale make the cost of educating a special needs child particularly difficult to fund. Further, the Task Force's recommendations relating to teacher recruitment and retention also address the need to attract and retain high quality educators in hard-to-staff rural schools. Finally, the Task Force's recommendation to provide additional investments in 4K and early education will have significant benefits for rural school districts, as well.

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In addition to these recommendations, the issue of transportation is a particularly difficult issue for these districts, as they are more likely to be larger in area and more sparsely populated than their suburban and urban counterparts around the state. The costs associated with transporting children to school in these sparsely populated areas are, in general, much higher than the costs of transportation in other areas, a factor that is not insignificant when considered in light of revenue controls.

**Goals:** Provide additional assistance to rural school districts, which lack the economies of scale enjoyed by school districts with greater enrollments.

## **Recommendation:**

36. *The Task Force recommends that the categorical aid for transportation be substantially increased to a figure that more accurately reflects districts' transportation costs, especially for long distance transport. The Task Force finds that transportation is a necessary service that is independent of instruction, and that some districts, particularly low density rural districts, spend a larger share of their budgets on transportation than their more compact counterparts. The Task Force recommends that consideration be given to using the state's transportation fund to pay these costs.*

Justification: School districts are required by state law to furnish transportation services to public and private school pupils. School districts that provide these services are eligible for transportation categorical aid. The aid payment is based on reimbursement rates that have not been changed since 1981. In those twenty-three years, the price of gasoline, salaries, equipment, and insurance have all increased substantially. In 2002-03, transportation aid totaled \$17.7 million. Based on school district budget data, the net cost to transport children to and from school was approximately \$220 million.

Under current law, payments are based upon the distance a student travels to school (see table below);

## **Current Law**

Distance Traveled	Regular School Year	Summer School
0<2 miles (hazardous areas)	\$12	0
2<5 miles	\$30	\$4
5<8 miles	\$45	\$6
8<12 miles	\$60	\$6
12<15 miles	\$68	\$6
15<18 miles	\$75	\$6
18 miles and over	\$85	\$6

The problem posed by a lack of increases in transportation funding is particularly troublesome for sparsely populated districts that must transport their students long distances

and must devote a larger portion of their budget toward transportation costs. For example, District A is a rural school district where students are transported long distances and transportation costs are roughly \$1,000 per student, and District B is a more urban district where students walk to school and has virtually no transportation costs. If Districts A and B both spend approximately \$10,000 per pupil, the students in District A are at a significant disadvantage because an additional 10% of funding allocated for them must be spent on transportation, whereas District B can invest these funds in classroom and other educational expenses.

With transportation costs at best a fixed, and likely growing, portion of school district budgets, districts with high transportation costs may be forced to make cuts in educational programming in order to continue transporting children to school. The Task Force expressed particular concern for districts that must transport their students disproportionately longer distances to school. In order to ensure equal educational opportunity for all Wisconsin students, additional funds must be allocated to the state's transportation categorical aid to help offset the financial disadvantage associated with transporting children long distances to school.

Estimated Fiscal Effect: While the Task Force elected not to select a specific funding target, the following are examples of the cost of incrementally increasing the current state reimbursement rates. These examples are provided by increasing all current flat annual reimbursement rates per pupil distance traveled to provide additional funding for districts transporting pupils to and from public and private schools. Note that transportation costs vary significantly across districts, and districts with the highest per pupil transportation costs would receive the greatest benefit.

- 2 times the current reimbursement rates = \$21 million annually
- 3 times the current reimbursement rates = \$40 million annually
- 4 times the current reimbursement rates = \$60 million annually

## V. Strengthening Efficiencies and Collaboration

**Problem:** Current law includes some incentives for the consolidation of school districts, but provides virtually no incentives for districts to collaborate and enter into shared services agreements. The consolidation of districts, while often not politically palatable or desirable to the parents and residents in those districts, is also problematic for many large area districts due to the distances involved. However, the consolidation of services between districts or with and other governmental units (e.g., municipalities or counties) are strategies that could greatly increase cost efficiencies and allow scarce resources to be better allocated.

**Goals:** Encourage through incentives greater collaboration among school districts and other units of local government to achieve greater efficiencies and cost savings.

### **Recommendations:**

37. *The Task Force recommends the establishment of collaboration teams in each of the state's 12 Cooperative Education Service Agencies (CESAs). The Department of Public Instruction, the Department of Revenue, and other state agencies as appropriate would work with CESAs*

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*to promote greater collaboration among districts and between school districts and other units of government.*

Justification: CESAs were created by the Wisconsin Legislature in 1963 to serve educational needs in all areas of Wisconsin by serving as a link between school districts and between school districts and the state. CESAs may facilitate communication and cooperation among all public and private schools, agencies and organizations that provide services to pupils. Wisconsin's CESAs are already working to improve efficiencies in the delivery of school district services. This recommendation encourages the creation of collaboration teams in and among CESAs to share best practices and value-added endeavors with others across the state.

Estimated Fiscal Effect: This proposal would have a minimal state and local effect.

38. *The Task Force recommends implementation of the Wisconsin Incentives for Service Collaboration Payment.*

Justification: Under this proposal, a grant program would be created to reward collaboration among districts and/or between districts and municipalities. Consortia of two or more districts/municipalities would submit collaboration proposals to DPI detailing their plans. This proposal would project cost savings for the first 5 years of the agreement. The WISC payment would be equal to 50% of the total expected savings and would be distributed over a 5-year period. To encourage consortia to stay in program, the payment would be front-loaded and back-loaded (Year 1 = 30%, Year 2 = 15%, Year 3 = 10%, Year 4 = 15%, Year 5 = 30%.) Annual progress reports would be submitted to DPI to ensure that expected savings are being generated.

Estimated Fiscal Effect: The cost of this proposal would depend on how many and which consortia applied. The Task Force estimated costs to be \$2 million annually.

39. *To provide additional resources to support instructional activities, the Task Force recommends that school districts, especially those with low enrollments, should explore consolidating services, including administrative and instructional services and multi-district collective bargaining. This consolidation can be achieved through bi- and multi-lateral agreements or through greater use of CESAs.*

Justification: Given projected student population trends and public pressure to reduce the overall tax burden, the consolidation of district services, including educational delivery services, is necessary to efficiently meet instructional needs. Distance learning, for example, will be an important resource for isolated, low enrollment districts to deliver educational programs that meet the state adequacy standard.

Estimated Cost: Unknown